

LETTER OF TRANSMITTAL

September 1, 1999

Honourable Darren Praznik
Minister responsible for Lotteries
Room 203 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Sir:

I have the honour to present you with the Annual Report of the Manitoba Lotteries Corporation for the fiscal year ended March 31, 1999.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "M. McPherson". The signature is fluid and cursive, with the first letter "M" being large and prominent. The last name "McPherson" is written in a similar cursive style.

(Mrs.) Marvelle McPherson
Chairperson
Board of Directors
Manitoba Lotteries Corporation

ABOUT THE MANITOBA LOTTERIES CORPORATION

The Manitoba Lotteries Corporation (MLC) is the Crown Corporation of the provincial government answering to the Minister responsible for Lotteries. The MLC's mission is to provide, within a framework of integrity and social responsibility, high quality gaming related entertainment and service while generating long-term economic benefit to the people of Manitoba.

Administered by a board of directors appointed from the community, the MLC manages and operates the Crystal Casino, Club Regent and McPhillips Street Station and a video lottery terminal (VLT) network. The MLC is responsible for the sale of breakopen tickets and bingo paper throughout the province.

The MLC also distributes and sells tickets for lotteries operated by the Western Canada Lottery Corporation (WCLC) and the Interprovincial Lottery Corporation (ILC).

Revenue from lotteries and gaming activities is directed to the Province of Manitoba to support priority social programs and local community activities.

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CHAIRPERSON & PRESIDENT'S REPORT

The Manitoba Lotteries Corporation (MLC) recorded a net income of \$225.1 million for the fiscal year ending March 31, 1999. This increase of approximately \$4.9 million or 2.2%, resulted from increased lottery and video lottery revenue. Net revenue increased from video lottery as a result of decreased expenses associated with the substantial completion of Year 2000 system compliance projects in 1997-98, reduced equipment depreciation and the fulfillment in the prior year of community support initiatives such as the Pan American Games and the Charlie Krupp Stadium re-development.

This has been an exciting year for the Corporation. MLC has been constructing Club Regent and McPhillips Street Station to consolidate the Crystal Casino's operations, as recommended in 1997 by an independent gaming review. In the summer of 1999, Club Regent and McPhillips Street Station will become full service destination casinos which, in addition to gaming entertainment, will offer exciting amenities such as full service restaurants, lounges, live entertainment and special attractions. These changes will ensure each casinos long term viability in a competitive marketplace which includes more than 34 casinos within an eight hour drive of Winnipeg.

In 1998/99 MLC's casinos hosted 600 bus tours making the casinos the number one bus tour attraction in the province. By the year 2000, more than 1,000 bus tours are expected to visit Club Regent and McPhillips Street Station, making them one of the top tourist destinations in the Midwest. Our success is due in part to the superior customer service we provide each guest.

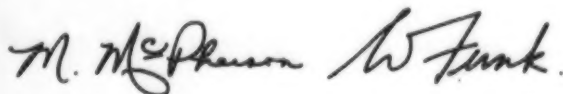
We are very proud that the Casinos of Winnipeg received the 1998 Award for Tourism Service Excellence. It was presented to the MLC by Manitoba Industry, Trade and Tourism in recognition

of MLC's high level of commitment to both customer service and staff training and development.

In 1998-99, nearly 800 MLC employees participated in the Manitoba Best Training Program, a nationally recognized service training course. Due to the consolidation project, MLC will increase the number of staff available to service our guests to nearly 1,800 — that's an addition of almost 600 employees providing excellent customer service.

This year, as in previous years, MLC has also supported a wide range of community events and programs such as the Team Canada Volleyball Centre, the Manitoba Exhibition & Stampede in Morris, the Robert Houle Exhibition at the Winnipeg Art Gallery, the Winnipeg Symphony Orchestra Northern Tour, the Aurora Festival in Churchill and the Royal Manitoba Winter Fair in Brandon. The MLC was also a major supporter of the 1999 Pan American Games. During 1998-99, the MLC has continued its support of the Addictions Foundation of Manitoba (AFM) with annual funding of over \$1.5 million.

The Manitoba Lotteries Corporation continues to respond to the gaming demands of Manitobans and tourists by striving to provide top calibre entertainment and superior customer service within a framework of integrity and social responsibility.

The image shows two handwritten signatures in black ink. The signature on the left is 'M. McPherson' and the signature on the right is 'Bill Funk'.

Marvelle McPherson
Chairperson

Bill Funk
President & CEO

FINANCIAL REVIEW

The following review presents data and comments on the Manitoba Lotteries Corporation's (MLC) financial position and results of operations for the fiscal year 1998-99. It should be read in conjunction with the financial statements that follow.

YEAR 2000

In order to meet the many challenges of the Year 2000, MLC made most of its critical gaming and administrative systems Year 2000 compliant by March 1999. All systems will be Year 2000 compliant by September 1999.

VIDEO LOTTERY

On March 31, 1999, there were 4,436 VLTs at 548 off-reserve locations throughout the province. As well, there are 331 VLTs on 15 First Nation sites. Assiniboia Downs, Manitoba's largest racetrack, offers 140 combination pari-mutuel/electronic game machines in partnership with the MLC.

Net revenue generated in 1998-99 increased to \$129.9 million. This increase of \$8.6 million, or 7% resulted primarily from decreased expenses this year associated with Year 2000 system compliance projects, reduced equipment depreciation and the fulfillment in 1997-98 of some of MLC's community support initiatives.

VIDEO LOTTERY PRIZE PERCENTAGE

GAME	PRIZE PAY-OUT %
Break Away 1 Line	95.0
Break Away 5 Line	95.0
Deuces Wild Double Up	95.0
Double Diamond 1 Line	92.6
Double Diamond 5 Line	92.6
Double Diamond 3 Line	92.5
Double Jackpot 5 Line	92.6
4 of a Kind Bonus Poker Double Up	96.0
Gold Silver Bronze 1 Line	92.2
Home Run 1 Line	92.3
Jackpot Jungle 1 Line	92.5
Jackpot Jungle 5 Line	92.7
Jacks or Better Double Up	94.9
Jacks or Better 4 of a Kind Progressive	95.6
Joker's Wild Double Up	93.0
Lucky Sevens 1 Line	92.4
Siam Dunk 1 Line	92.2
Super Sevens 5 Line	92.0
Triple Play 1 Line	92.0
Wild Cherry 1 Line 3 Credit	92.6
Wild Cherry 1 Line 2 Credit	92.4

VIDEO LOTTERY

April 1, 1998 - March 31, 1999

(in \$ Millions)

Dollars Deposited	\$ 708.5	
Dollars Played		\$ 2,731.1
Dollars Won		2,535.7
Dollars Cashed Out	513.1	
Revenue	<u>195.4</u>	<u>195.4</u>
Other Revenue		0.3
Total Revenue		195.7
Siteholder Commission		51.1
Direct Operating Expenses		14.7
Net Revenue		\$ 129.9

AVERAGE PRIZE PAYOUT

$$\text{Average Prize Payout} = \frac{\text{Dollars Won (Prizes)}}{\text{Dollars Played}} = \frac{\$2,535.7}{\$2,731.1} = 92.8\%$$

LOTTERY

The MLC is a partner in the Western Canada Lottery Corporation (WCLC), a regional marketing organization responsible for the development and conduct of lotteries in the prairie provinces and Territories. The MLC is the sole distributor of lottery products in Manitoba and is responsible for the development and maintenance of an effective retailer network for the sale of lottery tickets. Over 800 lottery ticket retailers offer a complete range of lottery and instant products to players throughout the Province.

A greater number of major Lotto 6/49 and Super 7 jackpots, as well as the introduction of Western 6/49, generated increased product sales. Continued popularity of \$2 and \$3 Scratch 'n Win tickets, and the introduction of new tickets like Crossword and Clue have translated into a strong customer base for those lottery products.

The success of these products resulted in a net revenue increase of \$5.3 million, or 13.7% to \$44.1 million.

Lottery Sales Chart (In \$ Millions)

Product	1998-99	1997-98	Increase [Decrease]	Percentage Change
Lotto 6/49	\$ 54.9	\$ 52.7	\$ 2.2	4.2
Scratch 'n Win	39.5	34.4	5.1	14.8
Sport Select	14.3	14.3	—	—
The Plus	14.3	13.2	1.1	8.3
Super 7	8.2	8.5	[0.3]	[3.5]
Pick 3	2.8	2.7	0.1	3.7
Extra	2.1	2.0	0.1	5.0
POGO	1.5	1.8	[0.3]	[16.7]
Western 6/49	1.2	—	1.2	100.0
Special Event	0.8	0.7	0.1	14.3
Total	\$ 139.6	\$ 130.3	\$ 9.3	7.1%

McPHILLIPS STREET STATION

Step back in time at the nostalgic, turn-of-the-century themed McPhillips Street Station.

McPhillips Street Station offers players slot machines in 5¢, 25¢, and \$1 denominations and touchscreen games including keno, poker, and swinging bells. Traditional favourites, paper and video bingo, are also available.

Net revenue for the fiscal year 1998-99 amounted to \$32.4 million, a decrease of \$3.2 million compared to the previous year. This 9.1% decline is attributable to a reduced number of playing stations in the bingo and slot areas, as well as increased expenses including repairs and maintenance, and staffing related costs in preparation for the newly enhanced casinos.

CLUB REGENT

Experience a tropical paradise, with towering palms and singing birds at Club Regent. Nestled amid the Caribbean theme, are slot machines in 5¢, 25¢, and \$1 denominations, touchscreen games including keno, poker, and swinging bells.

Traditional favourites, paper and video bingo, are also available.

Net revenue for the fiscal year 1998-99 amounted to \$24.2 million, a \$3.1 million or 11.3% decrease compared to the previous year. The decline is attributable to a reduced number of playing stations in the bingo and slot areas, as well as increased expenses including repairs and maintenance, and staffing related costs in preparation for the newly enhanced casinos.

More than 450 charitable organizations raise nearly \$4 million for their activities by volunteering to assist with paper bingo operations at McPhillips Street Station and Club Regent.

CRYSTAL CASINO

Reminiscent of casinos found in former European palaces or grand hotels, with crystal chandeliers, ornate decoration and gilt-edged mirrors, the Crystal Casino became the first full service permanent casino in Canada in 1989, offering both table games and slot machines. In 1999, the elegant Crystal Casino will close its doors.

The Crystal Casino ushered in a new era of gaming entertainment in Canada. Amid the elegant ambience, customers enjoyed a variety of table games including Let it Ride, Caribbean Poker, Blackjack, Mini-Baccarat and Roulette as well as exciting slot machines in 5¢, 25¢ and \$1 denominations.

The last decade has seen a number of changes in the gaming industry including increased competition and a trend to larger gaming facilities with more amenities offered in addition to gaming entertainment. In order to ensure long-term success, Crystal Casino operations will be consolidated at the redesigned Club Regent and McPhillips Street Station.

Net revenue for the year 1998-99 amounted to \$7 million, a decrease of \$0.3 million or 3.5%.

BINGO & BREAKOPEN PRODUCT

The MLC markets a popular selection of 25 breakopen ticket games ranging in price from 25¢ to \$2. The product line-up offers popular formats such as Criss Cross and Match 3, as well as a variety of seasonal ticket favourites such as Cool Cash and Cabin Fever. MLC also offers cross promotional games for McPhillips Street Station and Club Regent.

MLC continues to support local activities through the marketing of specialized breakopen tickets such as the Winnipeg Blue Bombers Championship Football ticket and the Winnipeg Goldeyes Grand Slam Baseball ticket.

These initiatives are reflected in a combined bingo and breakopen product net revenue increase of \$0.3 million or 9.4% to \$3.5 million. This is attributable to the increased number of lottery ticket retailers now offering breakopen products in addition to the instant and on-line tickets traditionally offered in those outlets.

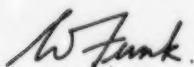
MANAGEMENT REPORT

The accompanying financial statements are the responsibility of management and have been prepared in accordance with the accounting policies stated in the financial statements. These accounting policies have been applied on a basis consistent with the prior year. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data available. The financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and that the assets of the Corporation are properly safeguarded. As part of the financial statement audit performed by Deloitte & Touche LLP, they reviewed the Corporation's internal controls to the extent they considered necessary and reported their findings to management and the Board of Directors.

The responsibility of Deloitte & Touche LLP is to express an independent opinion on whether the financial statements are fairly stated in accordance with generally accepted accounting principles. The Auditors' Report outlines the scope of the audit examination and provides the audit opinion.

The Audit Committee of the Board meets with management and Deloitte & Touche LLP to satisfy itself that each group has properly discharged its respective responsibilities and to review the financial statements before approving them. The Board has reviewed and approved these financial statements and the Annual Report in advance of its release and has approved its content and authorized its release.



Bill Funk
President & CEO

May 10, 1999



Brian Stepnuk
Vice President,
Finance & Administration

AUDITORS' REPORT

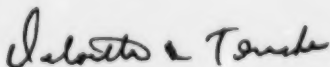
To the Board of Directors

Manitoba Lotteries Corporation

We have audited the balance sheet of Manitoba Lotteries Corporation as at March 31, 1999 and the statements of net income, and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1999 and the results of its operations and the changes in its financial position for the year ended in accordance with generally accepted accounting principles.



Chartered Accountants

Winnipeg, Manitoba
May 10, 1999

Manitoba Lotteries Corporation

BALANCE SHEET

March 31, 1999
(in thousands)

	Notes	1999	1998
ASSETS			
CURRENT ASSETS			
Cash		\$ 6,402	\$ 13,097
Accounts Receivable	3	7,619	9,493
Money on deposit with the Government of Manitoba		—	56
Inventories	4	2,643	2,441
		16,664	25,087
Capital Assets	5	110,385	57,103
		\$ 127,049	\$ 82,190

LIABILITIES & EQUITY ADVANCE

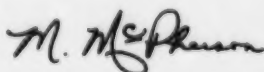
CURRENT LIABILITIES

Accounts payable & accruals	6	\$ 25,944	\$ 18,088
Due to the Government of Manitoba		74	—
Due to organizations		83	77
		26,101	18,165
Long Term Debt	7	95,676	54,406
Accumulated Pension Benefits		272	4,619
Equity Advance from the Government of Manitoba	8	5,000	5,000
		\$ 127,049	\$ 82,190

On behalf of the Board,



Director & Chair
of the Audit Committee



Director & Chair
of the Board

Manitoba Lotteries Corporation

STATEMENT OF NET INCOME

for the year ended March 31, 1999
(in thousands)

	Schedules	1999	1998
Net Revenue			
Video Lottery	1	\$ 129,929	\$ 121,357
Lottery	2	44,052	38,749
McPhillips Street			
Station	3	32,392	35,632
Club Regent	4	24,191	27,272
Crystal Casino	5	7,036	7,290
Bingo and			
breakopen products	6	3,514	3,213
Interest Income		314	583
License Fees [Expense]	7	-	[440]
Other Income		131	71
		241,559	233,727
General and			
administration expenses	8	(10,913)	(8,560)
Funding to:			
Addictions Foundation			
of Manitoba		(1,577)	(967)
Charitable Organizations		(3,939)	(3,935)
Net Income		\$ 225,130	\$ 220,265

Manitoba Lotteries Corporation

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended March 31, 1999
(in thousands)

	1999	1998
Cash provided by operating activities		
Net Income	\$ 225,130	\$ 220,265
Non-cash charges to income:		
Depreciation and amortization	13,584	15,301
Deferred pension benefits	54	432
	238,768	235,998
Net changes in working capital items	9,534	7,416
Cash provided by operating activities	248,302	243,414
Cash Distribution		
The Government of Manitoba	(225,000)	(223,422)
Financing		
Increase (Decrease) in long term debt	41,270	(197)
Deferred pension benefits	(4,401)	—
	36,869	(197)
Cash investment activities		
Purchase of capital assets, net	(66,866)	(16,713)
(Decrease) Increase in cash balance during the year	(6,695)	3,082
Cash balance, beginning of year	13,097	10,015
Cash balance, end of year	\$ 6,402	\$ 13,097

Manitoba Lotteries Corporation

SCHEDULE 1 - NET VIDEO LOTTERY REVENUE

for the year ended March 31, 1999
(in thousands)

	1999	1998
Revenue		
Video Lottery	\$ 195,687	\$ 193,521
Expenses		
Cartage	42	42
Commission	51,088	50,386
Community Support	75	2,436
Depreciation and amortization	3,555	5,901
Gaming control registration fee	503	124
Goods and services tax	2,999	3,165
Health and education tax	57	56
Interest	1,535	1,121
Maintenance transportation	564	588
Merchandising prizes	65	85
Pension	35	51
Postage and telephone	633	754
Professional fees	97	131
Rentals, repairs and maintenance	1,309	4,220
Salaries and benefits	2,836	2,766
Sundry	46	44
Supplies and printing	319	294
	65,758	72,164
Net Revenue	\$ 129,929	\$ 121,357

Manitoba Lotteries Corporation

SCHEDULE 2 - NET LOTTERY REVENUE

for the year ended March 31, 1999
(in thousands)

	1999	1998
Revenue		
Lottery sales	\$ 139,624	\$ 130,307
Less: Cost of sales	88,574	84,216
	<u>51,050</u>	<u>46,091</u>
Interest and other	821	596
	<u>51,871</u>	<u>46,687</u>
Expenses		
Depreciation and amortization	45	46
Freight and delivery	138	117
Gaming control registration fee	6	1
Goods and services tax	65	61
Health and education tax	30	33
Interest	177	129
Merchandising prizes	340	357
Pension	34	113
Postage and telephone	56	62
Professional fees	—	6
Rentals, repairs and maintenance	324	218
Retailer training and support	97	162
Salaries and benefits	1,564	1,691
Signs and fixtures	81	60
Sundry	20	19
Supplies and printing	14	22
	<u>2,991</u>	<u>3,097</u>
	<u>48,880</u>	<u>43,590</u>
Allocation to the Provinces of Alberta and Saskatchewan	2,868	2,894
Payment to the Government of Canada (note 9)	1,960	1,947
Net Revenue	<u>\$ 44,052</u>	<u>\$ 38,749</u>

Manitoba Lotteries Corporation

SCHEDULE 3 - NET REVENUE - McPHILLIPS STREET STATION

for the year ended March 31, 1999
(in thousands)

	1999	1998
Revenue		
McPhillips Street Station	\$ 55,605	\$ 54,039
Expenses		
Depreciation and amortization	4,219	3,711
Gaming control registration fee	281	68
Goods and services tax	314	331
Health and education tax	202	153
Interest	769	446
Merchandising prizes	771	736
Pension	97	107
Postage and telephone	170	119
Professional fees	97	199
Rentals, repairs and maintenance	4,668	4,270
Salaries and benefits	10,118	7,582
Security	49	46
Sundry	381	283
Supplies and printing	471	307
Tourism marketing and entertainment	606	49
	23,213	18,407
Net Revenue	\$ 32,392	\$ 35,632

Manitoba Lotteries Corporation

SCHEDULE 4 - NET REVENUE - CLUB REGENT

for the year ended March 31, 1999
(in thousands)

	1999	1998
Revenue		
Club Regent	\$ 44,745	\$ 43,512
Expenses		
Depreciation and amortization	3,393	3,320
Gaming control registration fee	240	58
Goods and services tax	314	315
Health and education tax	179	124
Interest	703	335
Merchandising prizes	820	776
Pension	91	110
Postage and telephone	171	118
Professional fees	61	373
Rentals, repairs and maintenance	4,368	4,070
Salaries and benefits	8,883	6,094
Security	28	29
Sundry	291	194
Supplies and printing	399	276
Tourism marketing and entertainment	613	48
	20,554	16,240
Net Revenue	\$ 24,191	\$ 27,272

Manitoba Lotteries Corporation

SCHEDULE 5 - NET REVENUE - CRYSTAL CASINO

for the year ended March 31, 1999
(in thousands)

	1999	1998
Revenue		
Crystal Casino (Note 10)	\$ 20,042	\$ 17,556
Expenses		
Depreciation and amortization	674	490
Gaming control registration fee	74	18
Goods and services tax	200	175
Health and education tax	157	150
Interest	229	168
Merchandising prizes	682	655
Pension	80	85
Postage and telephone	70	75
Professional fees	170	57
Rentals, repairs and maintenance	1,752	752
Salaries and benefits	7,598	7,059
Security	81	163
Sundry & exit costs (Note 10)	903	98
Supplies and printing	283	280
Tourism marketing	53	41
	13,006	10,266
Net Revenue	\$ 7,036	\$ 7,290

Manitoba Lotteries Corporation

SCHEDULE 6 - NET BINGO AND BREAKOPEN REVENUE

for the year ended March 31, 1999
(in thousands)

	1999	1998
Revenue		
Bingo paper sales	\$ 2,066	\$ 2,247
Less: Cost of sales	<u>1,677</u>	<u>1,903</u>
	389	344
Breakopen ticket sales	5,031	4,867
Less: Cost of sales	<u>1,238</u>	<u>1,256</u>
	3,793	3,611
Expenses		
Cartage	87	87
Depreciation and amortization	11	11
Goods and services tax	251	243
Interest	15	11
Licensee and retailer promotions	26	37
Professional fees	-	3
Rentals, repairs and maintenance	173	123
Salaries and benefits	89	195
Sundry	<u>16</u>	<u>32</u>
	668	742
Net Revenue	\$ 3,514	\$ 3,213

Manitoba Lotteries Corporation

SCHEDULE 7 - NET LICENSE FEE REVENUE (EXPENSE)

for the year ended March 31, 1999
(in thousands)

	1999	1998
Revenue		
License fees (Note 11)	\$ —	\$ 735
Expenses		
Depreciation and amortization	—	269
Field inspections and transportation	—	61
Health and education tax	—	15
Pension	—	94
Postage and telephone	—	22
Professional fees	—	2
Rentals, repairs and maintenance	—	65
Salaries and Benefits	—	641
Sundry	—	1
Supplies and printing	—	5
	—	1,175
Net Revenue (Expense)	\$ —	\$ (440)

Manitoba Lotteries Corporation

SCHEDULE 8 - GENERAL AND ADMINISTRATION EXPENSES

for the year ended March 31, 1999
(in thousands)

	1999	1998
Expenses		
Board of Directors	\$ 45	\$ 69
Cartage	72	60
Community Support	263	242
Depreciation and amortization	1,686	1,553
Gaming control registration fee	16	3
Health and education tax	88	73
Interest	117	125
Pension	131	169
Postage and telephone	258	251
Professional fees	750	383
Rentals, repairs and maintenance	1,404	989
Salaries and benefits	4,945	3,879
Sundry	787	508
Supplies and printing	351	256
Total Expenses	\$ 10,913	\$ 8,560

Manitoba Lotteries Corporation

NOTES TO FINANCIAL STATEMENTS

for the year ended March 31, 1999

1. Background

The Manitoba Lotteries Foundation was established by the Manitoba Lotteries Foundation Act. On July 27, 1993, the Act was amended and continued under the Manitoba Lotteries Corporation Act. By consent of the Legislative Assembly of Manitoba, the organization continues its operations as a Crown Corporation under the name of the Manitoba Lotteries Corporation.

2. Significant Accounting Policies

(a) Revenue and expenses recognition

Revenue and expenses are recorded on an accrual basis except for lottery revenue, which is recorded as of the draw date for each ticket. Video lottery and other gaming revenue is recorded net of prizes paid.

(b) Capital assets and depreciation

Capital assets are recorded at cost.

Furniture and equipment are depreciated on a straight-line basis over 5 years.

Buildings and parking lots are depreciated on a straight-line basis over 20 years.

Leasehold improvements are amortized over the term of the lease.

(c) Goods and Services Tax

In lieu of Goods and Services Tax (GST) on lottery and gaming revenue, the Corporation pays an additional 7% GST on gaming expenditures, including retailer commissions. This additional 7% is reported as GST expense.

The additional 7% GST paid on capital expenditures is included in the cost of the asset.

An input tax credit is claimed for GST paid on non-gaming expenditures.

(d) Pension costs

The Corporation makes contributions for employees and officers to a Money Purchase pension plan at prescribed rates. The pension expense related to this plan for the 1999 fiscal year is \$255,000 (1998 - \$209,000).

Certain other employees and officers of the Corporation are pensionable under the Civil Service Superannuation Fund (the Fund). The Corporation funded in total the actuarial present value of all prior accrued basic pension and indexing obligations as at December 31, 1997. The amount funded was \$4.4 million. A reserve of \$272,000 has been established as a pension liability for those employees whose annual earnings exceed the limit under the Fund plan.

Effective January 1, 1998, the Corporation began matching employee contributions to the Fund at prescribed rates. Current service contributions are recorded as an operating expense. The pension expense related to this plan for the 1999 fiscal year is \$154,000 (January to March 1998 - \$38,000).

3. Accounts Receivable (in thousands)

	1999	1998
Western Canada		
Lottery Corporation	\$ 2,454	\$ 2,969
Trade	2,607	4,689
Miscellaneous	2,558	1,835
	<u>\$ 7,619</u>	<u>\$ 9,493</u>

The Corporation is the sole distributor of lottery products in Manitoba and is a partner in the Western Canada Lottery Corporation.

4. Inventories (in thousands)

Inventories are valued at the lower of cost or net realizable value.

	1999	1998
Spare parts	\$ 1,972	\$ 1,712
Breakopen tickets	282	343
Bingo paper	266	247
Store merchandise	123	139
	<u>\$ 2,643</u>	<u>\$ 2,441</u>

5. Capital Assets (in thousands)

	Cost	Accumulated Depreciation and Amortization	1999 Net Book Value
Land	\$ 4,922	\$ —	\$ 4,922
Furniture & equipment	92,109	77,067	15,042
Buildings & parking lots	52,847	9,214	43,633
Leasehold improvements	5,046	4,233	813
Construction in progress			
-Cost	40,229	—	40,229
-Taxes	5,746	—	5,746
	<u>\$ 200,889</u>	<u>\$ 90,514</u>	<u>\$ 110,385</u>

	Cost	Accumulated Depreciation and Amortization	1998 Net Book Value
Land	\$ 4,922	\$ —	\$ 4,922
Furniture & equipment	85,027	66,027	19,000
Buildings & parking lots	31,529	7,192	24,337
Leasehold improvements	5,006	3,815	1,191
Construction in progress			
-Cost	6,561	—	6,561
-Taxes	1,092	—	1,092
	<u>\$ 134,137</u>	<u>\$ 77,034</u>	<u>\$ 57,103</u>

6. Accounts Payable and Accruals (in thousands)

	1999	1998
Trade	\$ 24,945	\$ 17,361
Jackpot provision	895	580
Government of Manitoba	103	146
Western Canada Lottery Corporation	1	1
	\$ 25,944	\$ 18,088

7. Long Term Debt (in thousands)

	1999	1998
	\$ 95,676	\$ 54,406

Royal Bank of Canada, due February 28, 2001. The Corporation has the option, through a Revolving Term Facility, to select a flexible term and associated interest rate. The fair market value of the Corporation's long term debt approximates its carrying value. The interest rate on existing loans range from 5.11% to 5.36%.

8. Equity Advance

The Equity advance reflects \$5 million for working capital provided to the Corporation by the Government of Manitoba.

9. Payment to Government of Canada

Effective January 1, 1980 the Government of Canada terminated its involvement in lotteries. In return, the ten provinces are to contribute an annual sum of \$24,000,000, adjusted for inflation, to the Federal Government. The Province of Manitoba's share for the 1999 fiscal year is \$1,959,623 (1998 - \$1,946,873).

10. Crystal Casino

The Corporation has announced its plan to close the Crystal Casino and consolidate its operations with Club Regent and McPhillips Street Station. The consolidation is expected to be completed in summer 1999. A provision of \$800,000 has been made for costs associated with the closing.

11. Discontinued Operations

Effective October 20, 1997, the Corporation discontinued its licensing operations and transferred responsibility to the Manitoba Gaming Control Commission.

12. Lease Obligations and Commitments

The future minimum rental payments relating to operating leases are as follows:

	(in thousands)
2000	\$ 479
2001	455
2002	453
2003	435
2004	431
Subsequent years	2,465
	<hr/> \$ 4,718 <hr/>

The Corporation is currently expanding its facilities for McPhillips Street Station and Club Regent. Total construction commitments due within the next year are approximately \$25,500,000.

13. Contingencies

Various legal actions have been commenced against the Corporation and the Corporation or its insurers are defending against all claims. While the outcome of these claims cannot be determined, management is of the opinion that the outcome will not have a material adverse effect on the Corporation's financial position.

No provision has been made in the accounts of the Corporation in respect to these claims at March 31, 1999.

14. Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use

certain dates in 1999 to represent something other than that date.

The effects of the Year 2000 Issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting Manitoba Lotteries Corporation including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

15. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

BOARD OF DIRECTORS

(Mrs.) Marvelle McPherson, Chairperson
Winnipeg

Ken Cooper, Vice-Chairperson
Winnipeg

Brett Arnason
Winnipeg

Lynn Filbert
Winnipeg

Louise Johnson
Thompson

Joyce Lumbard
Brandon

Brent McLean
Winnipeg

Jack Murray
Morris

William Wismer
Souris